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UNCLAS SECTION 01 OF 02 PRETORIA 003967

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DEPT FOR AF/S; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
TREASURY FOR BCUSHMAN
DEPT PASS USTR FOR PCOLEMAN

E.O. 12958: N/A
TAGS: EFIN EINV ETRD PREL ECON SF
SUBJECT: SOUTH AFRICA: LOOKING AT A SINGLE SADC CURRENCY

¶1. Summary. In a series of public speeches and press interviews over the course of the last six months, South African Reserve Bank Governor Tito Mboweni has advanced the prospect of a single currency for the Southern African Development Community (SADC) by 2016. Mboweni sees South Africa and Botswana playing a leading role in creating a SADC monetary union. Mboweni wants participating SADC member states to agree to strict macroeconomic targets aimed at controlling inflation, reducing budget deficits, and boosting economic growth. Currently, nine member states have budget deficits as percentage of GDP lower than 5%; eight maintain single digit inflation. While many economists believe that a common currency would boost regional economic growth, they also believe that success by 2016 is unlikely. End summary.

COMMON CURRENCY TARGETS SET

¶2. On several occasions over the past six months, South African Reserve Bank Governor Tito Mboweni promoted the notion a single currency by 2016 for the Southern African Development Community (SADC). At a speaking engagement in Johannesburg, he elaborated that the build-up to a single currency would involve the establishment of a free trade area in 2008, followed by the creation of a SADC customs union in 2010, and a common market area in 2015. SADC, with Madagascar as the latest addition, is a 14-state regional bloc, also comprising Botswana, Angola, Lesotho, Swaziland, Mauritius, Zimbabwe, Mozambique, Zambia, Namibia, the Democratic Republic of Congo, Malawi, Tanzania, and South Africa.

¶3. Mboweni said the build-up to a single currency would require member states to subject themselves to strict macroeconomic policies aimed at controlling inflation, reducing budget deficits, and boosting economic growth. Countries participating in a monetary union would be required to maintain an inflation rate no higher than 3% and a budget deficit no higher than 3% of GDP. The current SADC inflation target is single-digit inflation by 2008, and less than 5% by 2012. The current SADC target for budget deficits is no more than 5% of GDP by 2008, and 3% plus or minus 1% by 2012.

HOW DOES SADC STACK UP?

¶4. The newly-established SADC Committee of Central Bank Governors, which is responsible for creating a convergence framework, is meeting twice a year under Mboweni's chairmanship. Several working groups are meeting more regularly to deal with statistical, payment and settlement, training, and legal challenges associated with the integration process. Mboweni said he had met personally with all SADC Finance Ministers to "sell the concept," but that there were still varying expectations about the process as well as the role of central banks, with some officials still skeptical about the need for an independent monetary authority.

¶5. SADC member states have some more work to do on convergence. According to World Bank data, nine member states had a budget deficit as percentage of GDP that was lower than 5% in 2003. Angola, Malawi, Mauritius, Namibia and Zambia had budget deficits as a percentage of GDP of 6.4%, 9.6%, 6.2%, 6.9% and 5.8%, respectively (budget support from donors is included in these calculations). In 2004, eight SADC states had inflation rates of less than 10%. Six countries experienced double digit inflation, including the Democratic Republic of Congo (10%), Zimbabwe (381%), Zambia (18%), Mozambique (13%), Angola (45%), and Malawi (11%).

SOUTH AFRICA AND BOTSWANA SHOULD LEAD

¶6. Mboweni believes that a single currency for the region should be based on the South African rand and the Botswanan pula because of the strength of the two regional currencies. Swaziland, Namibia, and Lesotho had long linked

their currencies to the rand, through their Common Monetary Agreement (CMA) with South Africa. Moreover, the rand is the most highly traded African currency on the continent and the pula is the most stable. [Note: The Botswana pula and the South African rand traded on average at 4.69 Pula/$1 and R6.45/$1 in 2004, stronger than in 2003 (4.96 Pula/$1 and R7.56/$1). End Note.]

PROS, CONS, AND REALITY

¶7. Mboweni's vision is that goods, capital, and people should be able to move among SADC countries without tedious paperwork or costs associated with currency exchange. Many economists believe that further SADC economic integration would serve to boost economic growth in the region. In terms of population, a unified SADC common market - with 226 million people -- would constitute the fifth-largest emerging market after China, India, Indonesia, and Brazil.

¶8. A number of economists cast doubt on SADC integration. Roelof Botha, Economic Advisor at PriceWaterhouseCoopers, argues that a common currency would only succeed if there is strong political will and economic discipline - but this is not likely. Robert Bunyi, Head of Africa Research at Standard Bank, believes that while integration is desirable, the deadline of 2016 is hopelessly unrealistic. He notes that economists are already skeptical about achieving a free trade area by 2008, and that this forms the first stage in the build-up to a single currency. Standard Bank Economist Henry Flint believes that without a uniform regulatory environment and similar economic environment, a single currency cannot be launched. He warns that the divergence in country inflation and economic growth has serious consequences for monetary policy in the region. He also points out that there are large disparities in the welfare of member country populations. For this reason, monetary union should include only those countries that have achieved similar levels of development. While Flint acknowledges that excluding certain SADC member countries would be difficult to do politically, he argues that failure to do so would ruin the chance for success.

¶9. The reality of the situation is that South Africa accounts for 71% of total SADC GDP and is the only regional player that has large manufacturing and service industries. The rest of SADC relies primarily on agriculture and mining. The asymmetrical nature of SADC could adversely affect regional economic integration because external shocks would consistently hurt certain countries more severely than others. Mandla Maleka, Chief Economist for Eskom, the seventh largest electric utility in the world, believes that it would be quite difficult for SADC to create a common currency in just 10 years. Noting that it took Europe much longer, he advises SADC to start weighting its currencies into a single basket and monitoring its performance over time to gauge the viability of launching a common currency in 2016.

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